

PERFORMANCE AUDIT  
OF THE  
PROPERTY MANAGEMENT DIVISION  
DEPARTMENT OF MANAGEMENT AND BUDGET

August 1998

## EXECUTIVE DIGEST

# PROPERTY MANAGEMENT DIVISION

|                                  |   |
|----------------------------------|---|
| INTRODUCTION                     | This report, issued in August 1998, contains the results of our performance audit* of the Property Management Division (PMD), Department of Management and Budget (DMB).  |
| AUDIT PURPOSE                    | This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.   |
| BACKGROUND                       | <p>PMD's mission* is to provide a safe, healthy, accessible, aesthetically pleasing, and functional environment of Statewide facilities and properties under its jurisdiction.</p> <p>PMD is comprised of the operations and administration sections. The operations section is responsible for trade and tenant services. The administration section is responsible for support programs and engineering.</p> <p>PMD expended approximately \$38 million during fiscal year 1995-96 and, as of July 1997, had 289 employees.</p> |
| AUDIT OBJECTIVES AND CONCLUSIONS | <b>Audit Objective:</b> To assess PMD's effectiveness and efficiency in conducting preventive maintenance* programs and developing Statewide facility plans* .  |

\* See glossary on page 21 for definition.

**Conclusion:** We concluded that PMD was generally effective and efficient in conducting preventive maintenance programs and developing Statewide facility plans. However, we noted reportable conditions\* related to PMD's process for improving effectiveness and a preventive maintenance and repair\* system (Findings 1 and 2).

**Audit Objective:** To assess PMD's effectiveness and efficiency in administering tenant and building services\*.

**Conclusion:** We concluded that PMD was generally effective and efficient in administering tenant and building services. However, we noted reportable conditions related to safety, contract oversight, and machine-dispensed parking tickets (Findings 3 through 5).

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of the Property Management Division. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit methodology included examination of PMD's records and activities covering the period October 1994 through July 1997. To accomplish our objectives, we identified PMD's mission, organizational structure, and applicable statutes. We made inquiries of PMD personnel and reviewed property management professional publications to help form effectiveness and efficiency expectations. We examined records, observed activities,

\* See glossary on page 21 for definition.

and conducted interviews to provide a basis for assessing PMD's ability to effectively and efficiently conduct preventive maintenance programs, develop Statewide facility plans, and administer tenant and building services.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report includes 5 findings and 5 recommendations. DMB concurred with our recommendations and is in the process of implementing them.

PMD complied with or had taken steps to comply with all 12 prior audit recommendations included within the scope of our current audit.

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Ms. Janet E. Phipps, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Ms. Phipps:

This is our report on the performance audit of the Property Management Division, Department of Management and Budget.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

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## Description of Agency

The Property Management Division (PMD) is part of the Office of Support Services, Department of Management and Budget. PMD is comprised of the operations and administration sections. The operations section is responsible for trade services (including mechanical, environmental control, and electrical services) and tenant services. The administration section is responsible for support programs (including parking, locksmith, emergency planning, contracts, and security), engineering (including capital outlay and environmental projects, property-related documents, and preventive maintenance), and some fiscal matters.

PMD's mission is to provide a safe, healthy, accessible, aesthetically pleasing, and functional environment of Statewide facilities and properties under its jurisdiction. PMD has the overall responsibility for maintaining State-owned property, including 75 State-owned structures having 6.9 million square feet and a replacement\* cost of approximately \$493 million.

PMD expended approximately \$38 million during fiscal year 1995-96 and, as of July 1997, had 289 employees.

*\* See glossary on page 21 for definition.*

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit of the Property Management Division, Department of Management and Budget (DMB), had the following objectives:

1. To assess PMD's effectiveness and efficiency in conducting preventive maintenance programs and developing Statewide facility plans.
2. To assess PMD's effectiveness and efficiency in administering tenant and building services.

### Audit Scope

Our audit scope was to examine the program and other records of the Property Management Division. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

### Audit Methodology

Our work was performed between August 1996 and July 1997. Our audit methodology included examination of PMD's records and activities covering the period October 1994 through July 1997. To accomplish our audit objectives, we identified PMD's mission, organizational structure, and applicable statutes, rules, policies, and procedures. We made inquiries of PMD personnel and reviewed property management professional publications to help form effectiveness and efficiency expectations relative to our objectives.

Based on PMD's responses to our inquiries, we made plans to visit facilities for which PMD is responsible. We selected locations based both on size and on the extent to which we believed that the locations would be representative of PMD's overall operations.

We examined records and recordkeeping systems, observed activities, and conducted interviews with PMD staff in Lansing, Grand Rapids, Flint, and Saginaw to provide a basis for assessing PMD's ability to effectively and efficiently conduct preventive maintenance programs, develop Statewide facility plans, and administer tenant and building services.

#### Agency Responses and Prior Audit Follow-Up

Our audit report includes 5 findings and 5 recommendations. DMB concurred with our recommendations and is in the process of implementing them.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 require DMB to develop a formal response to our audit findings and recommendations with 60 days after release of the audit report.

PMD complied with or had taken steps to comply with all 12 prior audit recommendations included within the scope of our current audit.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## PREVENTIVE MAINTENANCE PROGRAMS AND STATEWIDE FACILITY PLANS

### **COMMENT**

**Background:** A successful preventive maintenance program and Statewide facility plans can positively impact the State. These impacts can include:

- a. Buildings that retain their value and usefulness while minimizing utility consumption and related pollution.
- b. Minimization of costs of replacement, eventual major failures, and the inefficient treatment of symptoms instead of causes.
- c. Minimization of service failures (e.g., power) and losses associated with preventable events (e.g., water leakage).
- d. Safer, healthier employees who have higher productivity and morale and lower absenteeism and turnover.

It is often difficult to know in advance the precise consequences of ineffective preventive maintenance programs and Statewide facility plans. The physical evidence to the affected facilities is usually visible only after the passage of years.

**Audit Objective:** To assess the Property Management Division's (PMD's) effectiveness and efficiency in conducting preventive maintenance programs and developing Statewide facility plans.

**Conclusion:** We concluded that PMD was generally effective and efficient in conducting preventive maintenance programs and developing Statewide facility plans. However, we noted reportable conditions related to PMD's process for improving effectiveness and a preventive maintenance and repair system.

## **FINDING**

### **1. Process for Improving Effectiveness**

PMD had not developed a complete process to objectively monitor and improve the effectiveness of its operations.

A process for improving effectiveness incrementally increases the effectiveness, efficiency, and controls over an agency's efforts to accomplish its goals. Such a process consists of establishing goals\*, objectives\*, and procedures related to the program's mission; identifying objective performance standards\* and performance indicators\*; implementing a management information system for objectively monitoring results; and modifying the program to improve its effectiveness. Other findings in this report reflect the effects of PMD's lack of a complete improvement process.

PMD had developed parts of an improvement process, such as basic performance measurement systems\*. However, PMD had not implemented several other key elements of an improvement process:

- a. PMD had not established sufficient policies and procedures relative to its mission.

Policies and procedures allow for clear expectations and increased focus on outcomes\* , effectiveness, and efficiency by staff in their improvement efforts. Policies and procedures also serve as a training tool to help ensure that continuity of work performance continues regardless of which person performs the function.

PMD recognized the importance of detailed policies and procedures relative to its operations. However, PMD noted that it had not developed sufficient policies and procedures.

- b. PMD had not fully established outcome-related performance indicators to allow it to evaluate significant aspects of its effectiveness and efficiency.

*\* See glossary on page 21 for definition.*

Performance indicators are necessary because the comparison of actual to goal program results allows management to make applicable program improvements. Without outcome-related performance indicators for PMD processes, systematic program improvements may not occur.

According to PMD's mission statement, PMD intended to be a performance and productivity leader. As such, PMD had taken steps to establish some basic outcome-related performance indicators, but it had not completed the related project.

- c. PMD's existing management information system did not ensure that data important to improving the effectiveness and efficiency of PMD operations was acquired, maintained, and compiled.

Ideally, management information is supported by data which is compiled from underlying documentation on day-to-day operations. However, in many instances, PMD either did not acquire underlying documentation or did not maintain underlying documentation.

## **RECOMMENDATION**

We recommend that PMD continue to make efforts to further develop a complete process to objectively monitor and improve the effectiveness of its operations.

## **AGENCY PRELIMINARY RESPONSE**

PMD will comply by implementing a process to improve the effectiveness of PMD's operations.

## **FINDING**

### **2. Preventive Maintenance and Repair System**

PMD did not have a comprehensive system for maintaining and repairing State buildings, parking ramps and surfaces, and their mechanical and electrical systems.

A comprehensive preventive maintenance system allows for maintaining property according to a pre-established checklist and cycle for all structures and

mechanical and electrical systems so that management can prioritize resource needs through planning. A preventive maintenance system also provides for detailed documentation of actual work performed and integrated management oversight of the total system.

Failure to develop and implement a comprehensive preventive maintenance and repair system can result in a significant reduction in the useful life of assets and an inefficient use of resources. We noted a lack of preventive maintenance in the following areas:

a. Parking Ramps and Surfaces

- (1) PMD did not apply surface coating to the Capital Complex Ottawa parking ramp (Ottawa ramp) to slow the rate of the ramp's deterioration.

In 1990, the Department of Management and Budget (DMB) hired a consultant to appraise the condition of the Capital Complex Allegan parking ramp (Allegan ramp). The contractor noted that preventive maintenance, such as applying surface coatings to ramp surfaces, could help prevent the destructive effects of salt and water on ramps.

Following the 1990 appraisal report, DMB decided that the deterioration to the 26-year-old Allegan ramp was too extensive to warrant surface coating. However, in 1990, the Ottawa ramp was only eight years old, had not deteriorated as extensively as the Allegan ramp, and could have benefited from surface coating to slow that ramp's rate of deterioration. However, PMD did not apply surface coatings to the Ottawa ramp.

- (2) PMD will need to replace the electrical supply hardware of the Flint State Office Building's parking ramp after 12 years of the hardware's planned 50-year life because of water leaks into the hardware resulting from the lack of proper preventive maintenance.
- (3) Surface parking lots at the State Secondary Complex are deteriorating at an accelerated rate because of the lack of surface maintenance\*, such as

\* See glossary on page 21 for definition.

filling asphalt cracks and resealing or taking other measures to prevent premature deterioration of the asphalt surface.

b. Building Exterior

PMD had not sealed the Flint State Office Building's exterior to help prevent water leaks. A 1990 contractor study noted that every effort must be taken to keep all water from penetrating the skin of the building. A portion of the study noted that water leaks in the building could cause corrosion and structural failure.

c. Other

PMD did not always complete logs or checklists to document preventive maintenance. At the various buildings at the Capitol Complex, State Secondary Complex, and North Complex and at the Flint State Office Building, heating, cooling, water, electrical, and ventilation logs or checklists were incomplete or nonexistent. Considering the number of systems necessary to operate a building and the numerous items of equipment and their individual parts, incomplete or nonexistent logs or checklists do not readily allow PMD management to conclude that it performed all required preventive maintenance. Failure to conduct all required preventive maintenance could result in power failures, system malfunctions, or inferior air quality.

PMD responded to our last audit report that it would develop a preventive maintenance and repair schedule by January 31, 1993. Although PMD took steps toward compliance, it had not put in place a comprehensive preventive maintenance and repair system.

## **RECOMMENDATION**

We recommend that PMD continue to develop a comprehensive system for maintaining and repairing State buildings, parking ramps and surfaces, and mechanical and electrical systems.



## **AGENCY PRELIMINARY RESPONSE**

PMD will comply by developing a consistent system for maintaining and repairing systems. In addition, PMD will improve the method for tracking and documenting maintenance and repair activity.

## **TENANT AND BUILDING SERVICES**

### **COMMENT**

**Audit Objective:** To assess PMD's effectiveness and efficiency in administering tenant and building services.

**Conclusion:** We concluded that PMD was generally effective and efficient in administering tenant and building services. However, we noted reportable conditions related to safety, contract oversight, and machine-dispensed parking tickets.

### **FINDING**

#### **3. Safety**

Some PMD safety procedures related to fire protection and safety training were not sufficient.

PMD's primary goal was to provide a safe environment for employees and visitors to its State facilities. A safe environment can be provided through creating and following safety procedures. Safety procedures reduce potential liability by ensuring that workplace safety standards are met through documented inspections and the identification and correction of unsafe conditions.

We noted the following examples of areas in which PMD could improve safety:

- a. PMD had not requested fire inspections at the Grand Rapids State Office Building for more than four years. Industry professionals recommend annual fire inspections to help identify potentially hazardous fire-related working conditions.
- b. PMD did not provide regular periodic safety training to persons responsible for assisting in PMD's safety program (e.g., floor monitors and PMD employees).

DMB Administrative Guide procedure 250.01 requires periodic floor monitor training meetings. We noted:

- (1) PMD documents showed that floor monitors at the Flint State Office Building had not received training since June 1994, 2 1/2 years prior to our inquiry on the subject.
- (2) PMD documents showed that PMD employees at the Grand Rapids State Office Building had not received any formal emergency training since 1989.

Building owners and operators may be liable to employees and visitors for safety-related injuries or illnesses if they have not sufficiently provided for occupants' safety.

#### **RECOMMENDATION**

We recommend that PMD improve its safety procedures related to fire protection, security, and safety training.

#### **AGENCY PRELIMINARY RESPONSE**

PMD will implement a plan to improve training of staff and tenants in safety procedures, including documentation requirements.

#### **FINDING**

##### **4. Contract Oversight**

PMD did not provide adequate oversight in the areas of contractor evaluation and resolution of contractor noncompliance.

The successful completion of contracts requires management to monitor and evaluate contract performance. Effective contract administrator oversight increases the probability that contractors will meet expectations associated with a service and uncovers performance deficiencies that could lead to unsatisfactory service. DMB Administrative Guide procedure 510.08 requires contract administrators to certify that contractors performed work in accordance with contract terms and to maintain progress report files.

Components of an effective contract oversight system for PMD would include ensuring that PMD maintains documentation to show that:

- a. PMD monitors and evaluates service providers for contract completion and quality.
- b. PMD investigates and resolves tenant complaints on a timely basis.
- c. PMD communicates noncompliance by vendors with contract terms to appropriate persons within PMD for corrective action.

PMD contracts for maintenance services for elevators, fire extinguishers, and parking equipment; janitorial services; lawn care; pest control; rubbish removal; security; snow removal; water treatment; and window cleaning. During our audit period, PMD had approximately 110 contracts.

From our review of PMD's contract oversight processes, we noted the following reportable conditions involving contractor evaluation and resolution of contractor noncompliance:

- (a) PMD did not have a systematic contractor evaluation process for some contracts. Periodic progress reports and final evaluations of contractor performance are necessary to ensure that contractors perform in accordance with the terms and conditions of the contract. Also, PMD could use final evaluation reports to develop contract requisitions and evaluate future contract proposals.
- (b) PMD did not have a systematic resolution process for instances of contractor noncompliance. A resolution process may include subjecting contractors to appropriate levels of sanctioning (such as, specific performance or monetary reimbursement by the contractor) or terminating contracts.

## **RECOMMENDATION**

We recommend that PMD increase its oversight in the areas of contractor evaluation and resolution of contractor noncompliance.

## **AGENCY PRELIMINARY RESPONSE**

PMD believes that it has adequate contract oversight procedures and will work towards improving related documentation.

## **FINDING**

### **5. Machine-Dispensed Parking Tickets**

PMD's control procedures regarding machine-dispensed parking tickets were not sufficient to ensure collection of parking fees.

Procedures for controlling machine-dispensed parking tickets are to help ensure that all tickets are paid by the parking patrons and collected fees are forwarded to the State treasury.

Vehicle operators entering certain State parking lots obtain date- and time-stamped tickets from machines. Upon completion of their State business, vehicle operators give the tickets to the visitor parking booth attendant and remit payment to the attendant based on the amount of time that their vehicles were parked.

The visitor parking booth attendants are to record daily details of parking booth activities on visitor parking tally sheets. We reviewed a sample of 35 tally sheets for the period October 1, 1995 through August 31, 1996.

Our review noted:

- a. PMD control procedures did not require parking booth attendants to account for all tickets dispensed. The 35 tally sheets showed that 544 (6.8%) of 7,982 tickets dispensed were not accounted for. Based on an average parking fee of \$1.60, the income foregone on the 544 tickets that were not remitted approximated \$870, or approximately \$11,000 annually.
- b. The parking office did not follow the procedure requiring the office to maintain a voided ticket log. PMD procedures provided that, in certain instances, a ticket may be voided. Procedures required the attendant to provide a written description of the voiding event to accompany the ticket and be included in a voided ticket log. However, without the voided ticket log, management's

control over the voiding of parking tickets was reduced. The 35 tally sheets showed that parking booth attendants voided 89 parking tickets.

Failure to improve control procedures regarding machine-dispensed parking tickets increases the risk that PMD employees will not appropriately forward cash to the State from tickets paid by the vehicle operators.

### **RECOMMENDATION**

We recommend that PMD improve control procedures for machine-dispensed parking tickets to help ensure collection of parking fees.

### **AGENCY PRELIMINARY RESPONSE**

PMD informed us that it has complied by implementing a parking fee collection process that includes adequate safeguards.

## Glossary of Acronyms and Terms

|                |  |
|----------------|--|
| DMB            | Department of Management and Budget.   |
| effectiveness  | Program success in achieving mission and goals.  |
| efficiency     | Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.               |
| facility plans | Quantified estimations of short- and long-term resource needs. Facility plans allow management to prioritize Statewide facility space and maintenance needs for the appropriate allocation of funds. |
| goals          | The agency's intended outcomes or impacts for a program to accomplish its mission.   |
| inputs         | Resources (e.g., staff hours or expenditures) that a program consumes in producing outputs.  |
| maintenance    | Action that must be taken to protect life, health, or property.  |
| mission        | The agency's main purpose or the reason the agency was established.  |
| objectives     | Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.  |
| outcomes       | The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.  |

|                                |  |
|--------------------------------|--|
| outputs                        | The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.  |
| performance audit              | An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action. |
| performance indicators         | Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance indicators are typically used to assess achievement of goals and/or objectives.   |
| performance measurement system | A system for capturing and processing data (including forms, procedures, information data bases, and reporting) to determine if the program is achieving its goals.  |
| performance standards          | A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.  |
| PMD                            | Property Management Division.  |
| preventive maintenance         | Maintaining property according to a pre-established checklist and cycle for all structures and mechanical and electrical systems.  |
| repair                         | The work to restore damaged or worn-out property to a normal operating condition. Repairs are curative while maintenance is preventive.  |

|                              |   |
|------------------------------|---|
| replacement                  | The act of replacing a complete identifiable item of permanent investment or plant equipment. Replacement may arise from obsolescence, wear and tear, or destruction.   |
| reportable condition         | A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner. |
| tenant and building services | A generic reference to those services provided by PMD in its capacity as landlord of the properties under its jurisdiction. These services include helping to ensure that facilities are safe, secure, healthy, accessible, and aesthetically pleasing.                 |